

RETAINED ASSET ACCOUNTS AND LIFE INSURANCE: What Consumers Need to Know About Benefit Payment Options

The death of a spouse, parent, child, partner or other loved one is a difficult time. In addition to the emotional stress present during the weeks, months or years following a death, financial burdens also may arise. Life insurance is intended to assist with these financial burdens. While life insurance policies provide for a single payment of the death benefit, policies also may offer other payout options that are intended to fit your needs and those of your family. The Kentucky Department of Insurance suggests you consider the following information if a life insurance company offers you a retained asset account as an option to a single payment.

What is a retained asset account?

A retained asset account (RAA) is a temporary repository of funds. The account's function is to give you (the beneficiary) the time you need to consider all of the financial options available. The payment of the total proceeds will be accomplished by delivery of a "checkbook." While the documents you receive might look like a checkbook, it might actually be drafts which are similar to checks, but different in some ways.

The use of a RAA provides you the flexibility to make the right decision regarding your long-term financial needs while earning interest on the life insurance proceeds. You can choose to write one check or draft to access the entire proceeds at any time. However, you may be able to earn a higher rate of interest on the life insurance proceeds if you select a different payout option.

RAAs are generally provided as an option to the beneficiary, however for some group policies, the employer might have agreed that a RAA is the only way life insurance claims are settled. If that is true in your case, you may write a check or draft to transfer the remaining funds as you see fit.



Protections for Kentucky residents:

The Kentucky Department of Insurance issued a bulletin outlining procedures for life insurers regarding RAAs. Under Kentucky law, insurers may not use these accounts to avoid the requirement that claims must be settled within 30 days of the receipt of the loss.

If you, as the beneficiary, choose to leave the money in a RAA instead of taking the immediate cash payment of the full benefit amount, the insurer must give you a supplemental contract outlining the rights and obligations of both you and the insurer. The contract also must outline any limitations, restrictions and interest provisions you have with the new account.

The insurer also is responsible for giving you information regarding the "checkbook," including how you can obtain the full benefit and any special steps you must take to access the funds. In addition, the insurer must provide details of the account, including the financial institution providing services, if the money is not held by the insurer. You must be advised of any tax implications.

Key Questions to Ask and Issues to Understand

If you are considering the option of a RAA or are provided one to settle a death claim, here are some important issues to consider:

- What interest rate will be paid on the proceeds, how will the interest rate be determined and how will the interest amount be credited to the account?
- Will the proceeds be held in a bank, which would make the proceeds FDIC insured up to the limit permitted by law?
- Will the proceeds be held by the insurer, which may make the proceeds subject to coverage by a state guaranty fund should the insurer fail?
- Will the proceeds be held in a bank checking or an insurer draft account and what banking services, if any, will be provided?
- Does the beneficiary need to notify the insurer prior to using a draft or check?
- What services will be provided at no charge and what services will involve a fee?

Other Payout Options

One size does not fit all and this is why various payout options are offered. If you choose to initially receive life insurance proceeds through a RAA, other payment options should be preserved until the entire balance is withdrawn or the balance drops below a certain dollar amount. Other payout options may include one or more of the following:

- **A single payment, also known as a “lump sum” payout:** Through this option, you will receive the entire proceeds in one payment.
- **Installment payout for fixed amount or period:** Through this option, you may choose to receive either: a fixed monthly, quarterly, or annual payment amount selected by you until the proceeds are depleted; or a fixed monthly, quarterly, or annual payment amount determined by your insurer for a fixed period of time that you select.
- **Installment payout for lifetime:** Through this option, you will receive fixed monthly, quarterly, or annual payments determined by your insurer for the remainder of your life.
- **Interest only payout:** Through this option, proceeds are left with the insurance company and you will receive interest payments, which the insurer will pay you on a monthly, quarterly or annual basis. If you choose this option, be sure you understand if the interest rate is fixed or variable and if there are any guaranteed minimums or maximum limits. Proceeds are passed on to your beneficiaries upon your death.

Other Tips

- If you are the beneficiary of a life insurance policy, contact the insurance company in a timely manner after the death of the insured. Be prepared to provide a death certificate to initiate the claims process.
- Always obtain the necessary contact information for your insurance company, such as a phone number and address, where you can obtain additional information and answers to your questions.
- Make sure you read and understand all information the insurance company sends to you.
- Assess your financial needs and tax status.
- Take your time in determining the right payout option for you. You should not be pressured to act quickly.
- If you need help, consult a trusted financial or tax advisor.